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February 15, 1994

Mr. William F. Caton
Secretary of Federal
Communications Commission
1919 M Street, NW
Washington, DC 20054

Re: Competitive Bidding Rulemaking - PP Dkt No. 93-253

Dear Mr. Caton:

Transmitted herewith on behalf of Telephone and Data Systems, Inc., in duplicate, is a written ex parte presentation which we are submitting pursuant to Section 1.1206 of the Commission's rules for inclusion in the public record of the above-referenced proceeding.

In the event that there are any questions concerning this matter, please communicate with the undersigned.

Very truly yours,


George Y. Wheeler

List of Attachments:

Statement dated February 10, 1994 of Robert J. Weber,
Professor of Managerial Economics and Decision Sciences,
J.L. Kellogg Graduate School, Northwestern University

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Information Flows in Broadband PCS Auctions

Subsequent to the Annenberg conference, the Telocator forum, a meeting at the FCC, and the demonstration at CalTech, I'd like to re-emphasize the need to select a broadband PCS auction procedure which brings important valuation information into the public domain in a timely manner.

Throughout the comment and reply rounds, and the various January meetings, no-one has disputed the following three facts:

(1) Knowledge of the identities of the holders of the 30 MHz licenses on large-population MTAs is important in order for applicants to determine the value of the 30 MHz licenses on contiguous smaller-population MTAs. Those who have successfully bid for licenses on the large-population MTAs will be better able to evaluate the likely pattern of nationwide competition, and to see where the greatest economies of scale in development and marketing will exist. Those who have not acquired licenses on the large-population MTAs (perhaps due to resource constraints) will be able to identify opportunities for providing tailored service to smaller markets, and to see where opportunities for strategic partnerships will exist.

(2) Knowledge of the identities of the holders of the 30 MHz licenses in any single MTA is important in order for applicants to determine the value of the BTA licenses within that MTA. The MTA-wide services that the winners are expected to offer will have substantial impact on the value of services prospective BTA licensees intend to offer. (Furthermore, the experience in cellular competition has shown that some large-scale providers respond to competition for niche markets very differently than others.)

(3) More-accurate valuations increase the likelihood of an economically-efficient allocation of licenses. An efficient allocation of licenses can be expected to generate both the delivery of high-value services to consumers, and high auction revenues.

For these reasons, it is clear that the selected procedure for the auctioning of broadband PCS licenses should ensure that the sale of the 30 MHz licenses on the large-population MTAs closes before bidders are forced to make commitments on any other licenses. Similarly, the selected procedure should close the sale of the 30 MHz licenses in each MTA before bidders are forced to make commitments on licenses covering BTAs within that MTA.

What distinguishes a large MTA from a small one? While the choice must be somewhat arbitrary, an examination of the map suggests calling the largest 11 MTAs "large". This set includes the primary candidates for regional "hubs", and covers approximately half of the nation's population.

I have long been on record as a supporter the idea that simultaneous-ascending-bid auctions are a practical and time-efficient method for allocating the large number of licenses which will be offered. At the same time, I have consistently emphasized the need for a proper flow of information to the bidders to aid in the processes of valuation and strategic decision-making.

In an attempt to keep the auction administratively simple, I initially proposed (in the TDS comments and reply comments) that the 30 MHz MTA licenses be sold in a sequence of 51 two-license simultaneous- ascending-bid auctions, with the MTAs sequenced in descending order by population. Each auction would be simple enough to be carried out "live", and short enough to be held in accordance with a pre-announced schedule.

Certainly, however, my primary concern — that the proper information flows occur as the allocation of licenses unfolds — would also be met if the MTA licenses were sold in fewer than 51 rounds, with more than two licenses offered through simultaneous-ascending-bid sales in each round. At the minimum, two successive auctions might suffice, with the first offering the 30 MHz licenses on the largest 11 (or so) MTAs, and the second offering the remaining MTA licenses.

[Perhaps an aside is in order here. Supporters of the "sell-everything-at-once" philosophy have argued that appropriate "activity requirements" will yield the correct information flows in one large sale. What little experimental evidence is available — for example, the simulation conducted at the Annenberg conference — fails to support this argument. It seems foolish to merely *hope* that the right flows occur, when a simple division of the MTA-level auction into two stages can *ensure* (at least in coarse terms) that they do.]

The first round of a two-round MTA-level auction will involve a restricted set of bidders, since many potential PCS licensees will be seeking only licenses on smaller MTAs, or on BTAs. Therefore, two administrative advantages will be reaped: There will be an opportunity to refine the details of the auction rules before larger numbers of licenses are offered in sales involving larger numbers of bidders, and smaller firms will have an opportunity to observe the first round, becoming familiar with the process before having to enter the fray against firms with substantial human-resource advantages.

[Another aside: It is not surprising that individual applicants seek the adoption of procedures which work to their advantage. Larger firms benefit from rules which swamp smaller competitors with informational, strategic, and administrative complexities, all of which must be dealt with in a limited time frame. Just so, smaller firms can benefit from rules which subject the larger firms to strategic "guessing games" which increase the likelihood of inefficient license allocations. So one should not be surprised that it is some of the larger applicants which have proposed selling everything at once,

and some of the smaller applicants which have recently proposed selling BTA-level licenses within the smallest MTAs first (forcing larger applicants to guess whether they will succeed in acquiring MTA-wide licenses, and should therefore perhaps hold back in the BTA-level auction). I believe that the *public* interest will be best served if the FCC chooses the appropriate "middle path", leveling the playing field (subject to policy concerning diversity) and seeking a procedure likely to yield an efficient allocation of licenses.]

If the MTA licenses are offered in a small number of rounds, each round will involve too many licenses to be conducted by a live auctioneer. The two proposals on record are to conduct the auctions in real-time (electronically), or in discrete bid-submission stages (electronically or manually). Either proposal requires the use of some type of "activity requirement" to ensure that the auctions proceed at an acceptable pace; both seem workable.

At the BTA level, I find myself slightly favoring real-time electronic bidding over discrete-time bid submissions, in order to simplify logistics. The presentations at CalTech demonstrated the feasibility of such an approach. I also favor a graduated scale of bid-withdrawal penalties, topping out at "full responsibility for making up the difference between the withdrawn bid and the eventual winning bid". (By using a graduated scale, bidders will have the ability to withdraw at low cost a small number of bids entered as a result of human error.)

Robert J. Weber
February 10, 1994